



PADGETT, STRATEMANN & CO., L.L.P.

Certified Public Accountants and Business Advisors

Independent Accountants' Report

To the Board of Directors
Telco Group, Inc.
Flushing, New York

We have examined Telco Group, Inc.'s ("Telco") compliance with Section 64.1310(a)(1) of the Federal Communications Commissions Report and Order in CC Docket no. 96-128, adopted September 30, 2003 (the "Order") as detailed in Attachment A, including their policies and procedures required to be in place under the Order effective July 1, 2004, except for an audit completion requirement which was completed subsequent to July 1, 2004 as requested in Telco's Petition for Waiver dated October 1, 2004. Management is responsible for Telco's compliance with those requirements. Our responsibility is to express an opinion on Telco's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Telco's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Telco's compliance with specified requirements.

In our opinion, Telco complied, in all material respects, with the aforementioned requirements for the period effective July 1, 2004, except for an audit completion requirement which was completed subsequent to July 1, 2004 as requested in Telco's Petition for Waiver dated October 1, 2004.

Padgett, Stratemann & Co.

Certified Public Accountants
November 11, 2004

Attachment

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Management of Telco Group Inc ("Telco" or the "Company") is responsible for establishing and maintaining adequate systems and processes for its Pay Telephone Call Tracking System and for ensuring the Company's compliance with the applicable requirements of Section 64.1310(a)(1) of the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has performed an evaluation of the Company's compliance with the applicable requirements of CC Docket No. 96-128 using the criteria in 64.1320(c) as the framework for the evaluation. Based on this evaluation, we assert that as of July 1, 2004, the Company complies with all applicable requirements of CC Docket No. 96-128.

We have prepared the required assertion statements relating to TELCO's Payphone Call Tracking Systems.

TELCO is acknowledged as the "Completing Carrier" in the following call scenarios:

- Prepaid Calling Card Calls (Completed by TELCO)
- Calls to a Call Center (Completed by TELCO)

All assertions for TELCO are from the point TELCO has visibility to the call tracking data.

TELCO uses the Billing Concepts, Inc. ("BCI") for payphone compensation settlement. TELCO has obtained and relied upon third-party assurance from BCI to verify that controls and procedures relating to these assertions have been established and maintained by BCI. An independent assessment of the effectiveness of such controls has been performed by an independent accounting firm.

TELCO represents the following assertions where it is identified as the Completing Carrier:

FCC Compliance Factor (1) – TELCO's ("Completing Carrier") procedures accurately track calls to completion.

- TELCO's definition of the "per-call rate" of \$.494 is in compliance with FCC rules.
- TELCO's definition of a "Compensable Call" (payphone-originated call that completes over TELCO's network in which TELCO identifies itself as the Completing Carrier) is in compliance with the FCC rules.
- TELCO's definition of a "Completed Call" (call that is answered by the called party) is in compliance with the FCC rules.
- TELCO's systems are able to generate the following reports on a quarterly basis:

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of Section 64.1310(a)(1) of the FCC's Rules and Regulations**

- a) A list of the toll free and access numbers dialed and completed from each Payphone Service Provider's (PSP's) payphones along with the ANI for each payphone.
 - b) The volume of calls for each toll free and access number that was completed by TELCO.
 - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling the TELCO's payphone compensation.
 - d) The CIC code or Trunk routing group of all facilities based LD carriers that routed calls to TELCO categorized according to toll-free and access code numbers.
- TELCO's data storage requirement (27 months) is in compliance with FCC rules.
 - TELCO's procedures for identifying PSPs are complete and accurate.
 - TELCO's procedures for validating payphone ANIs are complete and accurate.

FCC Compliance Factor (2) – TELCO (“Completing Carrier”) has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls.

- TELCO has designated personnel responsible for drafting the business requirements associated with tracking, compensating, and resolving disputes concerning payphone-compensated calls.
- TELCO has designated personnel responsible for the development and maintenance of systems used in the collection and reporting of payphone call data.
- TELCO has designated personnel responsible for the implementation and maintenance of procedures that are utilized in creating final compensation data sets.
- TELCO has designated personnel who are responsible for developing compensation-tracking reports.
- TELCO has designated personnel who are responsible for payphone compensation dispute resolution.

FCC Compliance Factor (3) - TELCO (“Completing Carrier”) has effective data monitoring procedures.

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- TELCO has the ability to prepare quarterly reports on payphone call counts, PSP identities and numbers dialed.
- TELCO performs data monitoring procedures on call record volumes entering the payphone compensation systems.
- TELCO has the ability to produce trend reports of excluded calls.
- TELCO performs fraud-monitoring procedures to identify potentially illegitimate payphone calls.
- TELCO has the ability to investigate and resolve PSP disputes.

FCC Compliance Factor (4) - TELCO (“Completing Carrier”) adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability.

- TELCO has security controls in place to control access to and monitor call-tracking data.
- TELCO has security controls in place to control access to and monitor the payment disbursement system.
- TELCO has a department that is responsible for making software changes that affect payphone compensation.
- TELCO has established protocols to implement and test software changes affecting payphone compensation.
- TELCO has application controls in place to ensure that network changes, external to payphone compensation, do not negatively impact payphone compensation.

FCC Compliance Factor (5) – TELCO (“Completing Carrier”) creates a compensable payphone call file by matching call detail records against payphone identifiers.

- TELCO utilizes switch data and database look-ups to populate the date, originating ANI, dialed number, and aggregate data into a Compensable Call File.
- TELCO uses payphone specific identifiers (info digits or ANI lists) to identify a compensable payphone call record.

- TELCO applies validation and control procedures to compile the Compensable Call File.

FCC Compliance Factor (6) – TELCO (“Completing Carrier”) has procedures to incorporate call data into required reports and making payment to PSPs.

- TELCO’s systems are able to generate the following reports on a quarterly basis:
 - a) A list of the toll free and access numbers dialed and completed from each PSP’s payphones along with the ANI for each payphone.
 - b) The volume of calls for each toll free and access number that was completed by Telco.
 - c) The name(s), address(es), and phone number(s) of the person(s) responsible for handling the Telco payphone compensation.
 - d) The CIC code or Trunk routing group of all facilities based LD carriers that routed calls to Telco categorized according to toll-free and access code numbers.
- TELCO possess a valid list of payphone owners identified by ANI.

FCC Compliance Factor (7) - TELCO (“Completing Carrier”) has implemented procedures and controls needed to resolve payphone compensation disputes.

- TELCO maintains required call tracking data for at least 27 months.
- TELCO has the ability to investigate and resolve PSP disputes.
- TELCO has designated personnel who are responsible for payphone compensation dispute resolution.

FCC Compliance Factor (8) – Critical controls and procedures have been tested by TELCO (“Completing Carrier”) to verify that errors are insubstantial.

- TELCO has procedures to identify payphone-originated calls.
- TELCO has procedures to capture dial-around calls.
- TELCO has procedures to exclude incomplete calls from the Compensable Call File.
- TELCO has procedures to accurately populate call record data in the Compensable Call File.

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- TELCO has procedures to exclude commissioned calls from the Compensable Call File.

FCC Compliance Factor (9) – TELCO (“Completing Carrier”) has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Completing carrier owes compensation.

- TELCO has business rules that identify calls originated from payphones.
- TELCO has business rules that identify compensable payphone calls.
- TELCO has business rules that exclude incomplete calls.
- TELCO has business rules to determine the identities of the payphone service providers to which TELCO owes compensation.

TELCO’s – Required Disclosures per 64.1320(d)

- TELCO’s criteria for identifying calls originating from payphones include call record info-digit identification of 27, 29 or 70. In addition, originating ANI is also used to identify payphone-originated calls.
- TELCO’s criteria for identifying compensable payphone calls include all calls with info-digits 27, 29 or 70 (or with a payphone-identified originating ANI) and call duration greater than 0. Calls originating from payphones where TELCO has a separate compensation agreement in place are excluded from the Compensable Call File.
- TELCO’s criteria for identifying incomplete or otherwise noncompensable calls include: 1) calls that do not have info-digits 27, 29 or 70 (or that are not from a payphone-identified originating ANI), 2) calls with a duration of 0 or 3) calls that originate from payphones where TELCO has a separate compensation agreement in place.
- TELCO’s criteria used to determine the identities of the PSPs to which TELCO owes compensation is established by BCI, TELCO’s clearinghouse for settlements.

- The type of information that TELCO needs from the PSPs in order to compensate the PSPs is determined by BCI.

Dated: July 1, 2004



Richard Rebetti
Chief Operating Officer
Telco Group Inc